




**SOUTHWARD  
ENERGY LTD.**



Digitized by the Internet Archive  
in 2023 with funding from  
University of Alberta Library

[https://archive.org/details/Sout0285\\_1988](https://archive.org/details/Sout0285_1988)

## **PRESIDENT'S MESSAGE**

### **TO THE SHAREHOLDERS**

The past twelve months has been another period of uncertainty and unsettling events regarding oil prices. Although O.P.E.C. appeared to agree on oil production levels at the end of 1988 with resultant strengthening of prices (currently \$18.00 U.S. per barrel), over production during mid year saw prices plunge to a low of \$12.60 U.S. per barrel. These wide swings in oil prices again reinforces your Company's belief in building gas reserves.

Although our exploration budget has been virtually non existent, your staff has been successful in developing prospects and financing them by way of leveraging joint venture partners. This method of financing our exploration efforts has resulted in doubling our revenue since placing two newly drilled gas wells on stream just before our accounting year end in August. We are continuing to develop gas prospects with a major commitment to seismic evaluation and Crown land purchase.

Again our financial commitment to these ventures will be met by securing joint venture participants who will carry a portion of our costs.

Further to the major project discussed previously, the Company has successfully farmed out three areas of Company owned lands where the farmee will spend capital to evaluate the prospects.

#### **ENCHANT, ALBERTA**

The Company completed and tested a gas well in 1987 that is capped awaiting tie-in to a sales line. An offsetting section of Company owned lands was farmed out for drilling this winter. In the event of a successful well, should it be a gas completion, tie in of our existing well and the newly drilled well would be done immediately. Our interest varies from 9% to 31% in this project.

#### **WEST PEMBINA, ALBERTA**

Southward has farmed out, on a seismic option, five separate areas of Company owned lands. The subject horizon is Nisku with successful wells producing two to three thousand barrels of oil per day. If a seismic anomaly is

defined, the farmee will drill a test this spring. Each of the five prospects must be drilled by the farmee in order to earn 12% of Southward's interest leaving the Company with a net 8% working interest.

#### **MAJORVILLE, ALBERTA**

In the spring of 1988, Southward bought 87.5% of 1120 acres of mineral rights from the Crown. Since that time, we have been negotiating to acquire a further 160 acres to complete two full sections of acreage. We anticipate completing this transaction in the first quarter of 1989 and will immediately lay plans to drill a well for a gas completion. Pipelines and a gas plant are available so that production to a gas contract could begin this summer if the well is successful. In that event, an offset well would be drilled soon thereafter.

#### **GOUGH LAKE, ALBERTA**

The Company retains a 37.5% ownership in one and one-half sections that has gas potential. It is the Company's intention to increase its land position at an appropriate time and eventually drill a well or several wells if warranted to prove up gas reserves.

#### **ATHABASCA, ALBERTA**

The Company continues to evaluate this area after successfully drilling a gas well last March that was put on stream in July at a rate of three and one-third million cubic feet per day. Southward's interest is 20% in this project.

#### **DONNELLY, ALBERTA**

Southward and its partners successfully drilled a gas well on a four section block of lands that subsequently was tied in and currently produces 1.7 million cubic feet of gas per day. Further drilling on the undeveloped lands will take place after the initial well has established suitable reserves. Southward owns a 10% interest in this project.

#### **SUCCESS, SASKATCHEWAN**

The Company has purchased land and farmed out two unsuccessful wells to test a wild-cat oil play. A third test will be drilled in January 1989, again farmed out at no cost to the



Company. We retain a 7.5 percent working interest in this prospect.

## **WILLMAR, SASKATCHEWAN**

The Company's oil wells continue to produce at a sustained rate of 50 barrels per day net to our interest. An additional well has been proposed to be drilled on Company owned lands in this area.

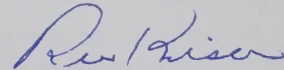
Although the Company's share values on The Alberta Stock Exchange have been recently depressed, it is our opinion that successful completion of a few of the several projects currently underway will dramatically effect the Company's financial status and thereby create investor interest in the shares of the Company.

As we begin a new calendar year, we continue to be optimistic for the future of the Company. Several indications of a new era of

profitability for companies such as Southward are apparent. The newly elected federal government and the recently passed legislation on free trade augers well for our industry.

An ending of the U.S. "gas bubble" is evident as record sales of export Canadian gas is taking place. Transportation companies, such as Nova and TransCanada PipeLines, are spending billions of dollars to expand the pipeline system in order to move greater amounts of Canadian gas to markets. Southward's staff is working diligently to find the gas reserves that we will sell to these markets.

On Behalf of the  
Board of Directors



R. W. Kiser  
President

**SOUTHWARD ENERGY LTD.  
CONSOLIDATED FINANCIAL STATEMENTS  
AUGUST 31, 1988**

**AUDITORS' REPORT**

The Shareholders  
Southward Energy Ltd.

We have examined the consolidated balance sheet of Southward Energy Ltd. as at August 31, 1988 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at August 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
January 13, 1989

St. Louis, Geib  
Chartered Accountants

**SOUTHWARD ENERGY LTD.  
CONSOLIDATED BALANCE SHEET  
AUGUST 31, 1988**

**ASSETS**

	1988	1987
Current		
Cash .....	\$ —	\$ 678
Cash held in trust (Note 5) .....	54,000	—
Accounts receivable .....	78,545	90,312
	<u>132,545</u>	<u>90,990</u>
Fixed (Note 2) .....	1,200,243	1,136,149
	<u>\$1,332,788</u>	<u>\$1,227,139</u>

**LIABILITIES**

Current		
Bank indebtedness (Note 3) .....	\$ 150,687	\$ 110,574
Accounts payable and accrued .....	226,820	143,065
Convertible debentures (Note 4) .....	165,000	—
	<u>542,507</u>	<u>253,639</u>
Convertible debentures (Note 4) .....	188,800	265,000
Contingency (Note 5)		

**SHAREHOLDERS' EQUITY**

Share capital (Note 6) .....	1,498,029	1,488,029
Deficit .....	(923,215)	(811,609)
Cumulative translation gain .....	26,667	32,080
	<u>601,481</u>	<u>708,500</u>
	<u>\$1,332,788</u>	<u>\$1,227,139</u>

ON BEHALF OF THE BOARD:

Richard Kiser, Director  
Scott Kiser, Director



**SOUTHWARD ENERGY LTD.  
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT  
FOR THE YEAR ENDED AUGUST 31, 1988**

	<u>1988</u>	<u>1987</u>
Revenue		
Petroleum and Natural Gas Sales .....	\$408,570	\$458,291
Royalties .....	<u>131,324</u>	<u>152,180</u>
	277,246	306,111
Operators fees .....	30,169	22,211
Interest earned .....	<u>388</u>	<u>125</u>
	307,803	328,447
Direct expenses		
Operating .....	48,922	56,387
Depletion and depreciation .....	<u>95,869</u>	<u>106,579</u>
	144,791	162,966
Revenue from operations .....	163,012	165,481
Other expenses		
General and administrative .....	216,337	206,347
Interest and bank charges .....	13,786	19,740
Debenture interest .....	34,495	17,748
Share issuance costs .....	<u>10,000</u>	<u>—</u>
	274,618	243,835
Operating loss before undernoted item .....	111,606	78,354
Write down in carrying value of petroleum and natural gas properties .....	<u>—</u>	<u>9,686</u>
Loss for the year .....	111,606	88,040
Deficit, beginning of year .....	811,609	723,569
Deficit, end of year .....	<u>\$923,215</u>	<u>\$811,609</u>
Net loss per share .....	<u>\$ .04</u>	<u>\$ .04</u>

**SOUTHWARD ENERGY LTD.**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**FOR THE YEAR ENDED AUGUST 31, 1988**

	<u>1988</u>	<u>1987</u>
<b>Operating activities</b>		
Loss for the year .....	\$(111,606)	\$ (88,040)
Charges (credits) to income not requiring cash		
Effect of exchange rate changes on working capital .....	(5,413)	390
Depreciation and depletion .....	95,869	106,579
Write down in carrying value of petroleum and natural gas properties ...	—	9,686
Commissions on stock sale .....	<u>10,000</u>	<u>—</u>
	(11,150)	28,615
Net changes in non-cash working capital balances related to operations .....	<u>41,522</u>	<u>(46,201)</u>
	30,372	(17,586)
<b>Financing activities</b>		
Proceeds of share subscriptions .....	—	100,000
Issuance of debentures .....	<u>88,800</u>	<u>265,000</u>
	88,800	365,000
<b>Investing activities</b>		
Geological costs capitalized.....	(70,206)	—
Effect of exchange rate changes on fixed assets .....	2,965	—
Exploration and lease acquisition .....	(183,312)	(194,077)
Government grants .....	9,399	4,777
Proceeds on sale of petroleum and natural gas properties .....	93,139	269
Acquisition of office assets .....	<u>(11,948)</u>	<u>(18,593)</u>
	(159,963)	(207,624)
<b>Changes in cash during the year</b> .....	(40,791)	139,790
<b>Cash at beginning of year</b> .....	<u>(109,896)</u>	<u>(249,686)</u>
<b>Cash at end of year*</b> .....	<u>\$(150,687)</u>	<u>\$(109,896)</u>

\*Cash at end of year consists of short-term bank borrowings less cash.



**SOUTHWARD ENERGY LTD.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 1988**

**1. Summary of Significant Accounting Policies**

Southward Energy Ltd. is a publicly traded company engaged in the oil and gas business and is incorporated under the Alberta Business Corporations Act. These financial statements are prepared in accordance with generally accepted accounting principles, the more significant of which are:

a) Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, Southward Resources Inc.

b) Oil and gas operations

The company follows the full cost method of accounting in accordance with the guideline issued by The Canadian Institute of Chartered Accountants whereby all costs associated with the exploration for, and development of, oil and gas reserves, whether productive or unproductive, are capitalized in cost centres. Such costs include land acquisition, drilling, geological and geophysical expenses related to exploration and development activities.

Gains or losses are not recognized upon the disposition of oil and gas properties unless such a disposition would change the depletion rate by 20% or more. Gains and losses are recognized upon the disposition of other assets.

Carrying values of oil and gas properties and share capital are reduced by grants received and transferred to flow through shareholders. Other grants earned under various government incentive programs are accrued and applied against the related expenditures.

c) Depreciation and depletion

Furniture and fixtures are depreciated on a 20% declining balance basis. Tangible equipment, oil and gas properties and intangibles are depleted on the unit of production method, based on proven reserves of oil and gas as determined by independent engineers and management's estimates. Natural gas reserves are converted to equivalent barrels of oil based upon the relative energy content of each product. In calculating depletion, gross proven reserves (before royalties) are used. Cost centres for purposes of calculating depletion are segregated between Canada and the United States.

d) Ceiling limitations

The net carrying value of the company's oil and gas properties is limited to an ultimate recoverable amount which is the aggregate of future net revenues from proved reserves and the costs of unproved properties net of impairment allowances, less future operating costs. Future net revenues are estimated using year-end prices discounted at 15%.

e) Income taxes

The company accounts for income taxes by the tax allocation method, whereby income tax expense is determined as the amount that would be payable if statutory tax deductions for drilling, exploration and property acquisition costs and for capital cost allowances were claimed for tax purposes at the same rate as the related depletion and depreciation provisions charged against income.

f) Foreign currency translation

The company translates the accounts of the U.S. subsidiary to Canadian dollars by translating the balance sheet at the rate in effect at the year-end date. The statement of operations is translated at the average rate for the year. The effect of the translation is included in shareholders' equity.



**SOUTHWARD ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**  
**FOR THE YEAR ENDED AUGUST 31, 1988**

**2. Fixed, at Cost**

	1988	1987
Petroleum and natural gas properties .....	\$1,616,049	\$1,474,099
Furniture and equipment.....	44,612	32,663
	1,660,661	1,506,762
Less accumulated depletion and depreciation .....	460,418	370,613
	<u>\$1,200,243</u>	<u>\$1,136,149</u>

The company has unused cumulative Canadian oil and gas property expense of \$350,886, cumulative Canadian development expense of \$120,408, cumulative Canadian exploration expense of \$566,924 and earned depletion of \$54,610, available to reduce future taxable income.

**3. Bank Indebtedness**

Bank indebtedness is payable on demand and is comprised of the following:

Overdraft .....	\$ 11,738
CIBC loan.....	\$ 47,949
Treasury Branch loan .....	91,000
	<u>\$150,687</u>

The CIBC loan bears interest at prime plus 3% and the Treasury Branch loan at prime plus 1.5%. A floating charge debenture and an assignment of book debts and certain gas contracts are pledged as collateral against the indebtedness. The Treasury Branch debt is subordinate to the CIBC and is authorized to \$320,000 once the CIBC debt is paid off.

**4. Convertible Debentures**

12% debentures: a floating charge subordinated to the bank is pledged as collateral for the debentures. Interest is payable quarterly. The debentures are convertible to common shares at a price of 66.67 cents per share. The debentures are repayable December 15, 1988 and December 15, 1989 if not converted before then. \$165,000

10% debentures: these amounts are unsecured. Interest is payable on maturity. The debentures are convertible to common shares at a price of 50 cents per share. The debentures are repayable April 30, 1989 if not converted before then. 100,000

10% debentures: a floating charge subordinated to the bank is pledged as collateral for the debentures. Interest is payable quarterly. The debentures are convertible to common shares at a price of 60 cents per share. The debentures are repayable February 28, 1991 if not converted before then. 88,800

353,800

Less current portion 165,000

\$188,800

**5. Contingency**

The company is a defendant in an action arising from the fiscal 1985 drilling of certain oil and gas properties which were placed on production during the year. The plaintiff's allege to hold an interest in the respective properties. The company is not able to estimate the effect, if any, on earnings which would result from settlement in the plaintiff's favor or on the resultant carrying value of the company's investment. During fiscal 1988 the company sold certain of the properties for \$54,000. This amount is being held in trust pending settlement of the action.

**SOUTHWARD ENERGY LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Cont.)**  
**FOR THE YEAR ENDED AUGUST 31, 1988**

**6. Share Capital**

	<u>1988</u>	<u>1987</u>
Authorized		
20,000,000 common shares without nominal or par value		
Issued		
2,561,113 shares (1987 — 2,258,335) .....	\$1,498,029	\$1,388,029
To be issued		
Nil shares (1987 — 277,778) .....	<u>—</u>	<u>100,000</u>
	<u>\$1,498,029</u>	<u>\$1,488,029</u>

During the year 302,778 shares were issued from treasury. Of this total 277,778 shares were issued for cash received in 1987. The balance of 25,000 shares were issued in lieu of commissions at a deemed price of 40 cents per share.

On September 15, 1987 there were stock options issued in respect of 165,000 common shares exercisable at 45 cents per share. On September 18, 1987 there were further stock options issued in respect of 25,000 common shares exercisable at 45 cents per share. All of the options expire two years after issuance and were granted to directors and employees of the company.

**7. Related Party Transactions**

During the year, the company paid remuneration to, officers and/or directors or their nominees in the amount of \$98,767 (1987 — \$90,167). The company also repaid \$18,682 for a loan granted to the company by the wife of a director.

**8. Segmented Information**

The company conducts its petroleum and natural gas activities in Canada and the United States. Details of significant financial statement items are as follows:

	<u>1988</u>		
	<u>Canada</u>	<u>United States</u>	<u>Consolidated</u>
Net loss (income) .....	\$ 128,000	\$(16,394)	\$ 111,606
Identifiable assets .....	\$1,288,953	\$ 43,835	\$1,332,788
Capital expenditures .....	\$ 254,839	\$ 10,637	\$ 265,476
	<u>1987</u>		
	<u>Canada</u>	<u>United States</u>	<u>Consolidated</u>
Net loss .....	\$ 83,342	\$ 4,698	\$ 88,040
Identifiable assets .....	\$1,194,114	\$ 33,025	\$1,227,139
Capital expenditures .....	\$ 202,276	\$ 10,394	\$ 212,670

**9. Income Taxes**

As at August 31, 1988 the company had losses for income tax purposes in the amount of \$235,102 which are available to reduce future years' taxable income. The losses and their respective years of expiry are as follows:

1989	\$116,247
1990	23,984
1991	14,363
1992	80,508
	<u>\$235,102</u>



**SOUTHWARD ENERGY LTD.**  
**ANNUAL REPORT — CORPORATE INFORMATION**

**OFFICERS AND SENIOR MANAGEMENT**

Richard Wayne Kiser  
President

Scott W. Kiser  
Secretary Treasurer  
Vice-president, Operations

Lorne R. Hill  
Exploration Manager

**DIRECTORS**

Richard Wayne Kiser  
Scott W. Kiser  
Ronald W. Ambrose  
Gerald C. Saunders

**HEAD OFFICE**

#600, 1010 - 1st Street S.W.  
Calgary, Alberta  
T2R 1K4

**AUDITORS**

St. Louis, Geib  
Chartered Accountants  
#300, 1010 - 1st Street S.W.  
Calgary, Alberta  
T2R 1K4

**SOLICITORS**

Bennett Jones  
Barristers & Solicitors  
#3200, 400 - 4th Avenue S.W.  
Calgary, Alberta  
T2P 0X9

**TRANSFER AGENT & REGISTRAR**

Central Guaranty Trust Company  
401 - 9th Avenue S.W.  
Calgary, Alberta  
T2P 3C5

**BANK**

Alberta Treasury Branch  
420 - 2nd Street S.W.  
Calgary, Alberta  
T2P 3K4

**STOCK EXCHANGE**

Alberta Stock Exchange  
#300, 300 - 5th Avenue S.W.  
Calgary, Alberta  
T2P 0L3

**TRADING SYMBOL**

SWN

